Hudson's Bay Oil and Gas Company Limited

Annual Report

FOR THE YEAR ENDED DECEMBER THIRTY-FIRST

1958

THE YEAR IN BRIEF

	1958	1957
FINANCIAL		
Gross Income	$19,925,000	$21,218,000
Net Income Exclusive of Non-Recurring Gains		
Total	$ 1,316,000	$ 3,073,000
Per Share	$ .07	$ .17
Non-Recurring Gains	$ 2,472,000	$ 4,742,000
Net Income for Year	$ 3,788,000	$ 7,815,000
Expenditures for Finding and Developing Reserves (Inclusive of Both Capital and Expense Items)	$17,913,000	$20,790,000
OPERATING		
Net Crude Oil Production (Barrels Daily)	20,099	22,257
Net Natural Gas Sales Volumes (Thousands of Cubic Feet Daily)	14,364	8,109
Exploratory and Development Wells Completed		
Gross	192.0	184.0
Net	102.2	107.7
Net Acreage at December 31		
Fully or Partially Developed	125,000	100,000
Undeveloped	10,022,000	10,361,000
Total	10,147,000	10,461,000

Hudson's Bay Oil and Gas Company Limited

ANNUAL REPORT 1958

TO THE SHAREHOLDERS

Net operating income of Hudson's Bay Oil and Gas Company Limited and its subsidiaries was $1.3 million or 7 cents per share in 1958 compared with $3.1 million or 17 cents per share in 1957. Non-recurring gains, principally from sales of investments, raised total net income to $3.8 million in 1958 and to $7.8 million in 1957.

OPERATIONS

The Company's net production of crude oil averaged 20,099 barrels daily in 1958, a decline of 2,158 barrels daily or 9.7% compared with 1957. Crude oil production by the entire petroleum industry in Western Canada declined by approximately the same percentage because of increased competition for markets and an interruption in the growth in consumption of refined products.

In April, 1958 there was a general reduction of 7 cents per barrel in prices for Western Canadian crude oil. Later in the same month there was a further reduction of 2 cents per barrel in the price of crude oil from the Pembina field. These and other price adjustments caused a decline of approximately $580,000 in gross operating income.

The completion of the Trans-Canada Pipe Lines Limited natural gas pipe line to Eastern Canada in the fall of 1958 opened up markets for some of the Company's large reserves of natural gas. Sales of natural gas in 1958 averaged 14.4 million cubic feet daily and at year end were more than 45 million cubic feet daily. This year end sales rate was only about one-third of the Company's potential production, which emphasizes the need for additional outlets to accelerate recovery of major investments in natural gas properties.

Expenditures for finding and developing reserves, inclusive of both capital and expense items, were $17.9 million in 1958 compared with $20.8 million in 1957. Approximately one-third of the decline was in exploratory expenditures and the remaining two-thirds in development expenditures. There was a substantial decline in expenditures to develop crude oil properties but, in preparation for large scale deliveries of natural gas, the Company increased expenditures for construction of plant facilities and for development of natural gas leases. There was also an increase in expenditures on secondary recovery projects to improve ultimate recoveries of crude oil.

Additions to the Company's reserves of crude oil and natural gas liquids exceeded withdrawals in 1958. Natural gas reserves also increased during the year.

INDUSTRY AFFAIRS

Production of crude oil in Western Canada at approximately 451,000 barrels daily in 1958 was down 9.1% from the peak year of 1957. This decrease was more than accounted for by a 73.4% decline in exports to the west coast of the United States. Exports to the Great Lakes area of the United States increased 4.5% and domestic use of crude oil produced in Western Canada increased 6.0%. The latter gain was attained by capturing a larger share of the Ontario market as total Canadian consumption of petroleum products failed to show the usual year to year increase. Higher current rates of crude oil production in Western Canada may indicate a resumption of the long-term growth trend.

The marketing of Western Canada's large reserves of natural gas surplus to domestic requirements is dependent on the adoption of governmental policies to facilitate exports from Canada to the United States. The Canadian Government, in October 1957, appointed a Royal Commission to inquire into the country's energy resources and to recommend policies to control the utilization of energy, both domestically and for export. The first report of this Commission was submitted to the Canadian Government in October 1958. In this report the Commission endorsed the export of Western Canada's surplus natural gas reserves but also recommended comprehensive regulations involving serious implications for the future welfare of the petroleum industry. Through the Canadian Petroleum Association, the petroleum industry has recommended alternative policies to the Canadian Government which would provide adequate control of Canada's energy resources, without imposing crippling regulations on private industry, and which would also expedite exports of natural gas. It is anticipated that the Government will introduce legislation dealing with this problem during the current session of Parliament.

OUTLOOK

Forecasts indicate that the business recovery which began in the second quarter of 1958 will continue during 1959. It is expected that this upward movement will generate a modest increase in production of crude oil in Western Canada.

The Company's capital expenditures in 1959 are now planned at a somewhat lower level than the $14.8 million outlay in 1958. Acceleration in the pace of general business activity and early clarification of the Government's natural gas policies could cause these plans to be revised upward.

The directors are pleased to express their appreciation for the diligence and loyalty of employees, many of whom are now shareholders of the Company. These people will make a valuable contribution to the future growth of Hudson's Bay Oil and Gas Company Limited.

Additional operating and financial information is given in the general review which follows.

Submitted on behalf of the Board of Directors:

R. C. Brown

President

Calgary, Alberta
March 4, 1959

GENERAL REVIEW

EXPLORATION

Discoveries — Exploration efforts by the petroleum industry in Western Canada were reduced sharply in 1958 from the peak years of 1956 and 1957. The number of exploratory wells drilled in 1958 declined 33% from the prior year and seismograph crews employed declined 13%. The reduced effort was reflected in fewer discoveries of oil and natural gas than in either of the two prior years.

The Company's exploratory activity in 1958 also declined. The number of exploratory wells in which it participated declined by 11% and employment of seismograph crews by 26%. It also participated in fewer oil and natural gas discoveries in 1958 than in the prior year. The significant discoveries and extensions resulting from the Company's 1958 operations are discussed below and are tabulated at the bottom of the page.

At Milligan Creek in northeastern British Columbia, 4 wells drilled during the year have extended the field area and proved important crude oil reserves. Additional drilling is now in progress on the 6,000 acre lease block in which the Company's interest is 50%. Interests varying from 33⅓% to 50% are owned in 300,000 acres held under permit adjoining the lease block. At the present time this field can be produced only during the winter season, when it is accessible by truck, but a pipe line connection into the area is under consideration.

During the drilling of the Cessford properties to delineate natural gas reserves, indications of crude oil were encountered at widely spaced locations in the northern part of the block in Cretaceous sands at depths ranging from 2,800 feet to 3,400 feet. Additional drilling at the most favor-

SIGNIFICANT DISCOVERIES AND EXTENSIONS IN 1958

Name of Field (1)	Nature of Discovery or Extension	Producing Formation	Depth
Milligan Creek	Crude Oil	Triassic	3,700′
Cessford	Crude Oil	Cretaceous	3,400′
Kaybob	Gas - Condensate	Devonian	9,500′
Beaver Creek	Gas - Condensate	Devonian	11,400′
Olds	Gas - Condensate	Devonian	8,000′

(1) All of the fields are in Alberta except the Milligan Creek field which is in British Columbia

able locations has proved the presence of significant volumes of crude oil. At year end 3 drilling rigs were employed in a development program in the area. In the Cessford block of nearly 7 townships of petroleum and natural gas rights the Company's interest averages approximately 53%.

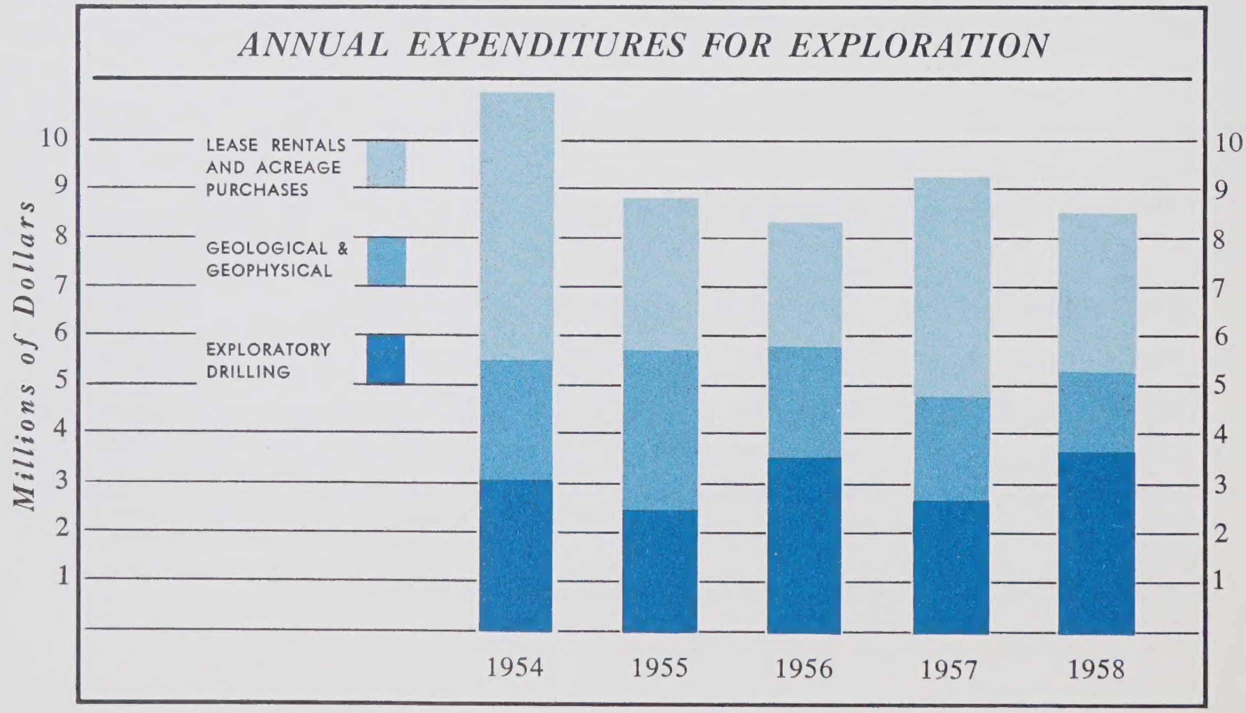
At Kaybob, where natural gas was discovered in Cretaceous sands in a previous test, an exploratory well encountered natural gas and condensate in the Devonian (Nisku) formation. Additional drilling is planned for further evaluation of this 92,000 acre Crown reservation in which the Company has a 50% interest.

During the year drilling was continued on the West Whitecourt block of about 1,000,000 acres of Crown leases and reservations. In the southwest part of the block 2 wells extended the Beaver Creek gas-condensate field some 3½ miles south and extended the Pine Creek natural gas field about 1½ miles north. The Company's interest in these fields is 41⅔%.

Near Olds, in central Alberta, 5 gas-condensate wells were completed at widely spaced locations on a 40,000 acre block of 100% owned leases. Because of varying potentials found at the locations drilled, further tests are necessary to evaluate this reservoir.

Acreage Holdings — At the end of 1958 the Company held petroleum and natural gas rights under 10.0 million acres in Western Canada compared to 10.4 million acres at the end of the prior year. During the year, 496,400 acres were acquired and 468,500 acres were surrendered on the basis of geological and geophysical appraisals. An additional 342,000 acres were relinquished upon conversion from reservation to lease status. Generally, about 50% of a Crown reservation area must be surrendered and the remainder may be retained under petroleum and natural gas leases.

The major portion of Crown lands in the most desirable geological areas of Saskatchewan and Alberta are held under lease or reservation by



the petroleum industry. Current offerings of Crown lands in those areas are now usually comprised of small blocks and scattered parcels. As a result, interest has been extended to more remote areas where conditions appear favorable for large accumulations of crude oil and natural gas.

During the year an increasing interest in northern British Columbia and the Yukon-Northwest Territories was manifested by the industry's acquisition of several million acres of Crown lands. The general area of interest extends from northern British Columbia through the Yukon-Northwest Territories to the mouth of the McKenzie River, north of the Arctic Circle. The Company acquired 233,000 permit acres in northeastern British Columbia.

The details of undeveloped acreage held at December 31, 1958 are shown in the table below.

DRILLING

The Company participated in the drilling of 192 wells in 1958, an increase of 8 wells over the prior year. After deducting the interests of others, this was equivalent to 102.2 net wells or 5.5 net wells less than the number drilled in 1957.

During the year, 55 gross or 30.3 net exploratory wells were completed on acreage in which working interests are owned. Compared to 1957 this represented a decrease of 7 gross or 2.6 net exploratory wells. The Company also contributed cash or acreage to support test wells drilled adjacent to its lands. Support was given to 22 of these wells, 4 more than in the prior year. In total, the Company supported or participated in the drilling of 77 exploratory wells, 3 wells less than in 1957.

UNDEVELOPED ACREAGE HOLDINGS

December 31, 1958

Type of Holding	Alberta	Saskat-chewan	British Columbia	Other	Total
Option to Lease Hudson's Bay Company Lands	1,398,000	2,344,300	6,100	698,500	4,446,900
Crown Reservations or Permits (1)	1,113,800	99,400	2,150,100	38,000	3,401,300
Options to Lease from Others	88,300	29,300	—	—	117,600
Undeveloped Leaseholds	1,976,600	63,700	4,900	10,900	2,056,100
Total Acres	4,576,700	2,536,700	2,161,100	747,400	10,021,900

(1) Convertible into leases to the extent of approximately 50%

Under the development drilling program, 137 gross or 71.9 net development wells were completed. This was an increase of 15 gross wells but, with a smaller average ownership, a decrease of 2.9 net wells from the prior year. There were 65.1 net development wells successfully completed in 1958. Of these, 55.8 were oil wells and 9.3 were gas wells.

The principal development drilling activities during the year were as follows:

	Wells Completed	
Field	Gross	Net
Pembina	58	31.5
Bellshill Lake	12	6.3
Cessford	12	6.0
Innisfail	8	4.0
Garrington	5	3.0
Other Fields	42	21.1
	137	71.9

The cost of unsuccessful wells, mainly exploratory, was $3,285,206 in 1958 or $1,849,344 more than in the preceding year. A combination of factors caused this increase. The Company participated in more exploratory tests where its interest was paid for in cash rather than acreage; exploratory wells were drilled to a greater average depth, and an unusually large amount of drilling with a high degree of risk was carried on to meet exploratory work obligations on large blocks of Crown reservations and permits.

PRODUCTION

Crude Oil — The Company's net crude oil production averaged 20,099 barrels daily in 1958, a decline of 2,158 barrels daily or 9.7% compared to 1957. Crude oil production by the entire petroleum industry declined 9.1% in Western Canada but in Alberta, where most of the Company's crude oil production is located, the decline was 17.7%. The reduction in Alberta production reflects the shrinkage in over-all markets available to Western Canadian crude oil and the capture by Saskatchewan of an increased share of the market.

The contribution to the Company's 1958 production by wells completed during that year and by a full year's operation of wells completed in 1957 was 2,441 barrels daily. On the other hand, reductions in allowables and natural decline in production from older wells amounted to 3,145 barrels daily and 1,454 barrels daily, respectively.

The pressure maintenance program initiated on the Company's Pembina properties in 1957 was expanded during 1958. Approximately 19,200 acres are now under water injection and a project is scheduled to get under way soon to inject natural gas into the reservoir under an additional 5,760 acres. Results attained to date indicate that pressure maintenance of the Pembina reservoir will significantly increase ultimate recovery of crude oil.

The principal fields from which production was obtained are listed below:

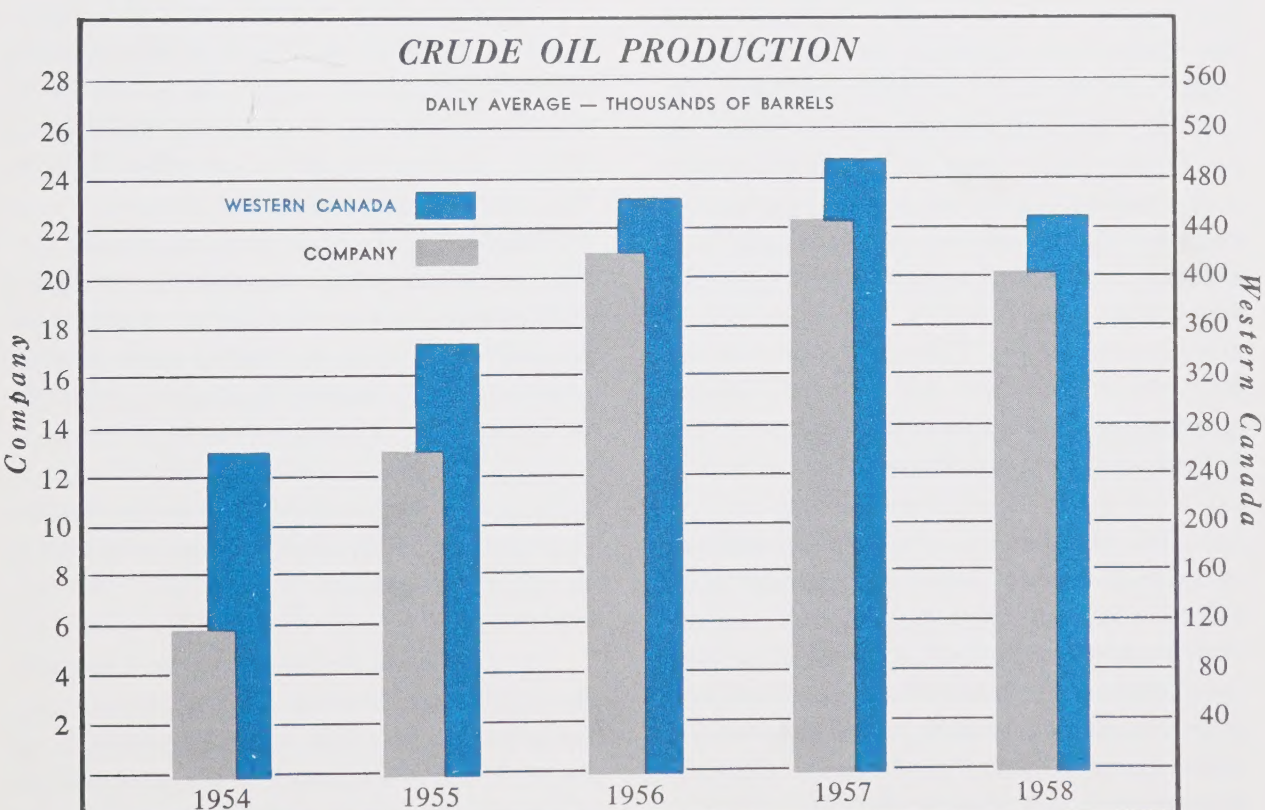
	Net Production (Daily Average Barrels)	
Fields	1958	1957
Pembina	8,006	10,122
Sundre	2,158	2,043
Sturgeon Lake South	1,346	1,242
Leduc-Woodbend	1,077	1,298
West Drumheller	886	919
Success	788	883
Fenn-Big Valley	559	810
Other Fields	5,279	4,940
	20,099	22,257

Natural Gas — With the completion of the Trans-Canada Pipe Lines Limited natural gas pipe line to Eastern Canada, the Company began large scale deliveries from some of its previously shut-in natural gas reserves. In preparation for initial deliveries from the Cessford field during the fall of 1958, additional natural gas wells were drilled, and a gathering system and plant capable of processing 125 million cubic feet of natural gas per day were constructed. At year end deliveries of natural gas from these facilities were 71 million cubic feet per day, in which the Company's net interest was approximately 32 million cubic feet per day. The contract price per thousand cubic feet for this gas is 10 cents until the end of 1959, increasing thereafter by ¼ cent annually to a maximum of 15¾ cents in 1982.

Deliveries of natural gas from several other fields also commenced or were increased in 1958. A summary of natural gas sales volumes for the year is given below:

	Net Sales Volumes in 1958 (Millions of Cubic Feet Daily)	
Fields	For Part of Year in Operation	For Full Year
Cessford	28.634	4.231
Viking Kinsella	3.478	3.478
Provost	1.247	1.247
Pembina	6.696	1.303
Other Fields	4.708	4.105
	44.763	14.364

The Company has actively participated in planning for the production, transportation, processing and marketing of extensive reserves of natural gas and related by-products in the West Whitecourt block. In the Windfall field, construction was started in 1958 on a cycling plant with a daily capacity to process about 30 million cubic feet of natural gas from which approximately



2,550 barrels of natural gas liquids will be extracted. Depending on experience with the reservoir behavior and the development of market outlets, the plant may be enlarged to process about 137 million cubic feet of natural gas daily from which approximately 11,660 barrels daily of natural gas liquids could be extracted. The Company's interest in this project is 41⅔%.

During the latter part of the year, Hudson's Bay Oil and Gas Company Limited and its partners entered into a contract with Alberta and Southern Gas Company Limited for the sale of 110 million cubic feet of natural gas per day from the Windfall, Pine Creek and Beaver Creek fields. The Company's net interest in this contract amounts to approximately 40 million cubic feet of natural gas per day. The price per thousand cubic feet for this gas is 13½ cents until mid 1961, increases to 16¼ cents during the next three years and then gradually escalates to a maximum of 21 cents in 1983. Deliveries under this contract are dependent on the purchaser's ability to secure required export and import permits from governmental agencies in Canada and the United States. Integrated gathering and processing facilities will be required to meet commitments under the contract and to remove large quantities of sulphur which will be produced as a by-product.

RANGELAND PIPE LINE COMPANY LIMITED

This wholly owned subsidiary was organized in 1956 to connect crude oil fields in central Alberta with other pipe lines to major refining centers. Rangeland's accounts, which have been included in the consolidated financial statements, showed borrowed and equity capital of $4,971,183 at December 31, 1958 and net income of $223,829 for the year ended on that date. The volume of crude oil transported averaged 17,719 barrels daily in 1958, an increase of 95% over the prior year. The increased volume reflects the installation of gathering facilities in the Garrington Field and the expansion of facilities in the Bentley, Joffre and Innisfail fields.

EMPLOYEES

Salaries and wages of $2,194,050 were paid in 1958, an increase of $219,532 over the amount paid in the prior year. The principal cause of this increase was a growth in the number of people employed from 356 at the beginning of the year to 396 at the year end. Most of the added employees were required to staff expanded natural gas and crude oil pipe line operations or to perform services previously obtained on a contract basis.

On July 1, 1958 a thrift plan for employees was put into effect. This plan provides that each eligible employee may deposit up to 6% of his base pay and that the Company will contribute an amount equal to 50% of the employee's deposits. The funds accumulated in the employee's thrift plan account are invested, at the employee's election, in Hudson's Bay Oil and Gas Company Limited stock or in Government of Canada bonds. At year end 81% of the eligible employees had joined the plan, making total membership 193. Of this number, 184 members or 95% elected to become shareholders of Hudson's Bay Oil and Gas Company Limited by directing that funds held for their account be invested in whole or in part in the Company's shares.

In addition to the thrift plan, the Company's benefit plans for employees include retirement pay, hospitalization insurance, group life insurance and disability pay. At the end of the year 238 employees or 83% of those eligible were members of

the retirement plan. Company contributions under all benefit plans except those for holiday and vacation pay totalled $173,239 or 7.9% of salaries and wages in 1958.

The rapid growth of the Company has made it necessary to emphasize programs for the development of supervisory personnel. Under these programs 123 employees were given training courses during the year. Also, to maintain effective communications the periodic publication of an employee newspaper was inaugurated.

FINANCIAL

Exclusive of non-recurring gains, net income of the Company and its subsidiaries totalled $1,316,388 or 7 cents per share in 1958, a reduction of 57.2% from the comparable net income of $3,073,002 or 17 cents per share earned in 1957. Early in 1958 the Company sold its remaining shares in Trans-Canada Pipe Lines Limited. The gain from this sale and other non-recurring gains raised total net income for the year to $3,787,764.

No income taxes were currently payable in 1958. As explained in Note 3 to the financial statements a provision for deferred income taxes of $155,000 was made for Rangeland Pipe Line Company Limited. Hudson's Bay Oil and Gas Company Limited had accumulated a substantial excess of deductions over income to be carried forward against taxable income of future years. The exact amount of this carry-forward cannot be determined until the application of the Income Tax Act to oil companies has been further clarified.

Gross operating income for 1958 was $19,394,918, a decrease of $1,567,917 or 7.5% from 1957. Sales of crude oil at $17,619,295 declined $2,605,972. Approximately 78% of this reduction was attributable to lower sales volumes and the remaining 22% to lower average selling prices. Growth in natural gas sales and in pipe line and crude oil trading operations partially offset the decline in crude oil sales. Natural gas sales increased by $243,036 to a total of $408,075 and, with a full year's operation of new plant facilities, are expected to be three to four times this amount in 1959. Gross revenue from pipeline and related operations increased by $795,019.

Total costs of doing business in 1958 were $18,608,165, an increase of $463,384 or 2.5% over 1957. Capital extinguishment charges and dry hole costs increased by $2,312,162, reflecting the effect of the Company's continuing heavy capital investment program. On the other hand, cash operating expenses declined by $1,009,396. Part of this decrease was accounted for by a decline in the total cost of operating wells despite an increase in the number of wells producing crude oil and natural gas during the year. There was also a reduction of $994,382 in interest expense as a result of changes made in the Company's capital structure in 1957.

The Company and its subsidiaries spent $14,845,377 for property, plant and equipment in 1958, a decrease of $4,074,716 from the previous year. Rangeland Pipe Line Company Limited completed its main pipe line system in 1957 and, accordingly, its capital expenditures in 1958 were limited to the installation of additional gathering facilities and well connections. There was a substantial decline in expenditures to develop crude oil properties but, with the commencement of deliveries of natural gas in volume, the Company had heavy capital expenditures for construction of plants and for development of natural gas leases. There was also an increase in expenditures on secondary recovery projects to improve ultimate recoveries of crude oil. The large capital invest-

ment program has made it advisable to retain all earnings for use in the business, thus increasing shareholders' equity to $63,290,741 at year end.

There were only minor changes during 1958 in investments in other companies, which totalled $480,041 at year end. These investments have been made in companies operating crude oil pipe lines or natural gas conservation facilities which serve the Company's properties.

During the year the Company purchased $1,000,000 of its 4% First Mortgage Sinking Fund Bonds, Series A, and surrendered them to the Trustee to establish a sinking fund credit.

A summary of the source and use of funds during the past two years is given below:

SOURCE AND USE OF FUNDS

	1958	1957
	(Thousands of Dollars)	
Source of Funds		
Gross operating income	$19,395	$20,963
Interest and other income	530	255
Sales of investments, etc.	3,235	6,637
Issue of capital stock and bonds	—	41,374
Miscellaneous sources (uses) of funds	(437)	566
	$22,723	$69,795
Use of Funds		
Exploration, production and administrative expenses	$ 8,081	$ 9,090
Interest expense	1,268	2,262
Expenditures for property, plant and equipment	14,845	18,920
Repayment of long-term debt and bank loans	1,000	26,000
Increase (Decrease) in accounts receivable, inventories and deposits less accounts payable and accrued interest	(787)	2,017
	$24,407	$58,289
Increase (Decrease) in cash and in government and other securities during year	$(1,684)	$11,506

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1958 AND 1957

	1958	1957
INCOME:		
Gross operating income	$19,394,918	$20,962,835
Interest and other income	529,635	254,948
	19,924,553	21,217,783
EXPENSES:		
Operating and general expenses (Note 4)	5,319,490	5,886,698
Rentals of undeveloped oil and gas properties	2,362,040	2,852,870
Taxes, other than income taxes	399,212	350,570
Dry holes	3,285,206	1,435,862
Surrendered leases	203,821	16,840
Depletion	3,778,470	3,803,920
Depreciation	1,837,179	1,535,892
Interest and expense on long-term debt	1,267,747	1,106,972
Other interest charges	—	1,155,157
Deferred income taxes (Note 3)	155,000	—
	18,608,165	18,144,781
NET INCOME EXCLUSIVE OF NON-RECURRING GAINS (Note 5)	1,316,388	3,073,002
NON-RECURRING GAINS, principally from sales of investments	2,471,376	4,742,352
NET INCOME FOR YEAR	$ 3,787,764	$ 7,815,354

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1958

Balance at Beginning of Year	$ 629,157
Net Income for Year	3,787,764
Balance at End of Year	$ 4,416,921

ASSETS

	1958	1957
Current Assets:		
Cash	$ 757,160	$ 1,207,498
Government and other securities (Note 1)	9,505,694	10,739,397
Accounts receivable	3,904,751	2,857,784
Materials and supplies at or below average cost	2,176,330	3,256,175
Operating and performance deposits	204,058	272,863
Total Current Assets	16,547,993	18,333,717
Investments in Non-Controlled Companies at Cost	480,041	480,892
Property, Plant and Equipment at Cost	98,376,961	87,563,746
Less: Accumulated depreciation and depletion	21,294,870	15,971,994
	77,082,091	71,591,752
Oil and Gas Rights on Hudson's Bay Company Lands	1	1
Other Assets:		
Unamortized bond discount	527,358	602,865
Miscellaneous, including mortgages receivable from officers of $28,490 in 1958 and $19,991 in 1957	272,831	273,454
	800,189	876,319
	$94,910,315	$91,282,681

Approved on Behalf of the Board:

R. C. Brown, Director

L. J. Richards, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1958	1957
Current Liabilities:		
Accounts payable and accrued liabilities	$ 3,630,928	$ 2,938,991
Accrued bond interest	233,646	240,312
Total Current Liabilities	3,864,574	3,179,303
Long-Term Debt (Note 2):		
Hudson's Bay Oil and Gas Company Limited:		
4% First Mortgage Sinking Fund Bonds, Series A, maturing May 1, 1975	24,000,000	25,000,000
Rangeland Pipe Line Company Limited:		
5% First Mortgage Sinking Fund Bonds, Series A, maturing October 1, 1971	1,100,000	1,100,000
5¾% First Mortgage Sinking Fund Bonds, Series B, maturing August 1, 1977	2,500,000	2,500,000
	27,600,000	28,600,000
Deferred Income Taxes (Note 3)	155,000	—
Shareholders' Equity:		
Share capital, par value $2.50 per share:		
Authorized: 25,000,000 shares Issued and outstanding: 17,744,592 shares	44,361,480	44,361,480
Paid-in surplus	14,512,340	14,512,741
Retained earnings	4,416,921	629,157
	63,290,741	59,503,378
	$94,910,315	$91,282,681

NOTES TO FINANCIAL STATEMENTS — DECEMBER 31, 1958

Note 1: Government and other securities of $9,505,694 at December 31, 1958 were carried at cost, which approximated market.

Note 2: Hudson's Bay Oil and Gas Company Limited, 4% First Mortgage Sinking Fund Bonds, Series A — Under the Deed of Trust and Mortgage securing these bonds sinking fund payments sufficient to redeem $1,000,000 of bonds are required in each of the years 1960 to 1974, inclusive, and the balance of $10,000,000 is payable in 1975. During 1958 the Company purchased and surrendered to the Trustee $1,000,000 of these bonds, thereby establishing a sinking fund credit of that amount which may be applied at the option of the Company against any of the required sinking fund payments. The Deed of Trust and Mortgage places a restriction, under certain conditions which do not at present exist, on payments of dividends. The bonds are secured by a first fixed and specific mortgage and charge on certain petroleum and natural gas leases and by a first floating charge on all of the undertaking, property and assets, both present and future, of the Company. Subject to the restrictions and conditions in the Deed of Trust and Mortgage, the Company may issue additional first mortgage bonds secured by such trust deed.

Rangeland Pipe Line Company Limited, First Mortgage Sinking Fund Bonds — Under the Deed of Trust and Mortgage securing these bonds sinking fund payments are required sufficient to redeem Series A bonds in an amount of $100,000 in each of the years 1960 to 1969, inclusive, and $50,000 in 1970 with the balance of $50,000 payable in 1971. Sinking fund payments sufficient to redeem $160,000 of the Series B bonds are required in each of the years 1962 to 1976, inclusive, and the balance of $100,000 is payable in 1977. Subject to the restrictions and conditions in the Deed of Trust and Mortgage, the Company may issue additional first mortgage bonds secured by such trust deed.

Note 3: Deferred income taxes of $155,000, provided for Rangeland Pipe Line Company Limited, represent the income taxes which would have been payable if interest and depreciation deducted for tax purposes had not exceeded the amounts charged in the statement of income. This provision will be restored to income in future years when interest and depreciation deducted for tax purposes will be less than the amounts charged in the statement of income.

Under the provisions of the Income Tax Act and Regulations, oil companies are permitted to deduct all drilling costs currently and also are allowed, in general, to apply the excess of deductions over income for any year against the taxable income of future years. As a result of these provisions Hudson's Bay Oil and Gas Company Limited has accumulated substantial deductions to be carried forward against taxable income of future years and, accordingly, had no liability for income taxes at December 31, 1958.

Note 4: The following amounts were paid during the year ended December 31, 1958: Directors' fees and expenses - $30,837; salaries of executive officers - $203,572; fees and salaries for legal counsel - $24,634.

Note 5: The Company's accounting practice is to charge exploration expenses against income as incurred. The cost of drilling successful wells is capitalized and amortized on a unit of production basis and the cost of unsuccessful wells is expensed when determined to be dry.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hudson's Bay Oil and Gas Company Limited as of December 31, 1958 and the consolidated statements of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Hudson's Bay Oil and Gas Company Limited and subsidiary companies at December 31, 1958 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta
February 6, 1959

FIVE YEAR FINANCIAL AND OPERATING REVIEW (1)

		1958	1957	1956	1955	1954
Income — Financial Data	Gross operating income	$19,395	20,963	18,040	11,091	5,413
	Net operating income (loss)					
	Total	$ 1,316	3,073	2,359	(1,059)	(2,576)
	Per Share	$ .07	.17	—	—	—
	Non-recurring gains	$ 2,472	4,742	2,245	729	—
	Net income for year	$ 3,788	7,815	4,604	(330)	(2,576)
	Current assets	$16,548	18,334	6,522	4,379	2,901
	Current liabilities	$ 3,865	3,179	4,890	5,449	2,987
	Current ratio	4.3	5.8	1.3	.8	1.0
	Long-term debt	$27,600	28,600	52,100	32,003	13,603
	Shareholders' equity	$63,291	59,503	12,814	8,210	8,540
Gross Property Accounts	Leases	$12,606	11,683	9,647	9,210	7,633
	Wells, plants and equipment	$75,149	66,163	53,969	34,423	18,010
	Total production	$87,755	77,846	63,616	43,633	25,643
	Pipe line property	$ 5,634	4,908	2,136	—	—
	Other	$ 4,988	4,810	4,591	3,009	772
	Grand total	$98,377	87,564	70,343	46,642	26,415
Expenditures For Finding and Developing Reserves (2)	Acreage acquisitions	$ 1,126	2,053	436	1,576	3,369
	Cost of drilling wells	$ 8,387	10,032	15,924	14,856	6,822
	Productive wells	$ 5,102	8,596	14,200	13,373	5,287
	Dry holes	$ 3,285	1,436	1,724	1,483	1,535
	Plants and equipment	$ 4,374	3,606	5,118	3,922	1,511
	Exploratory expenses	$ 1,664	2,246	2,272	3,165	2,374
	Lease rentals	$ 2,362	2,853	2,486	2,431	2,018
	Total	$17,913	20,790	26,236	25,950	16,094
Net Crude Oil Production	Average barrels daily	20,099	22,257	20,992	13,152	5,931
	Alberta	17,953	20,097	19,194	11,700	5,534
	Saskatchewan	2,117	2,144	1,796	1,450	397
	Other provinces	29	16	2	2	—
	Annual barrels (thousands)	7,336	8,124	7,683	4,801	2,165
Wells	Completed					
	Gross wells	192.0	184.0	335.0	318.0	166.0
	Net wells	102.2	107.7	186.2	174.0	81.7
	Net development wells	71.9	74.8	153.4	156.6	56.5
	Oil wells	55.8	65.4	149.2	154.1	55.9
	Gas wells	9.3	5.1	.8	—	.4
	Dry holes	6.8	4.3	3.4	2.5	.2
	Net exploratory wells	30.3	32.9	32.8	17.4	25.2
	Oil wells	2.0	3.6	6.6	5.5	5.2
	Gas wells	5.3	7.3	4.5	3.5	1.9
	Dry holes	23.0	22.0	21.7	8.4	18.1
	Capable of production					
	Total wells	620.0	596.6	513.4	357.5	194.4
	Oil wells	(3)552.9	543.0	474.5	322.6	163.9
	Gas wells	67.1	53.6	38.9	34.9	30.5
Net Acreage	Thousands of acres	10,147	10,461	10,948	9,445	9,608
	Producing	125	100	88	64	46
	Undeveloped	10,022	10,361	10,860	9,381	9,562
	Number of shareholders	12,738	12,941	2	2	2
	Number of employees	396	356	307	251	174

(1) The figures in this table are for Hudson's Bay Oil and Gas Company Limited and subsidiary companies at December 31 or for years then ended. With the exception of earnings per share, dollar figures are in thousands.

(2) Includes both capital and expense items; excludes interest and administrative expense.

(3) During the year 40 net oil wells in the Pembina field were converted to water or gas injection wells. The allowables formerly assigned to these wells were transferred to adjacent producing wells.

Board of Directors

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Ira H. Cram, New York, *Senior Vice-President and a Director of Continental Oil Company*

Joseph Harris, Winnipeg, *Chairman of the Board of Directors of The Great-West Life Assurance Company and a Director of Hudson's Bay Company*

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Chas. A. Perlitz, Jr., Houston, *Executive Vice-President and a Director of Continental Oil Company*

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Glenn H. Bowes, Vice-President, Exploration

K. H. Burgis, Financial Vice-President, Treasurer and Secretary

E. L. Shafer, Vice-President, Production

F. J. Mair, Controller and Assistant Secretary

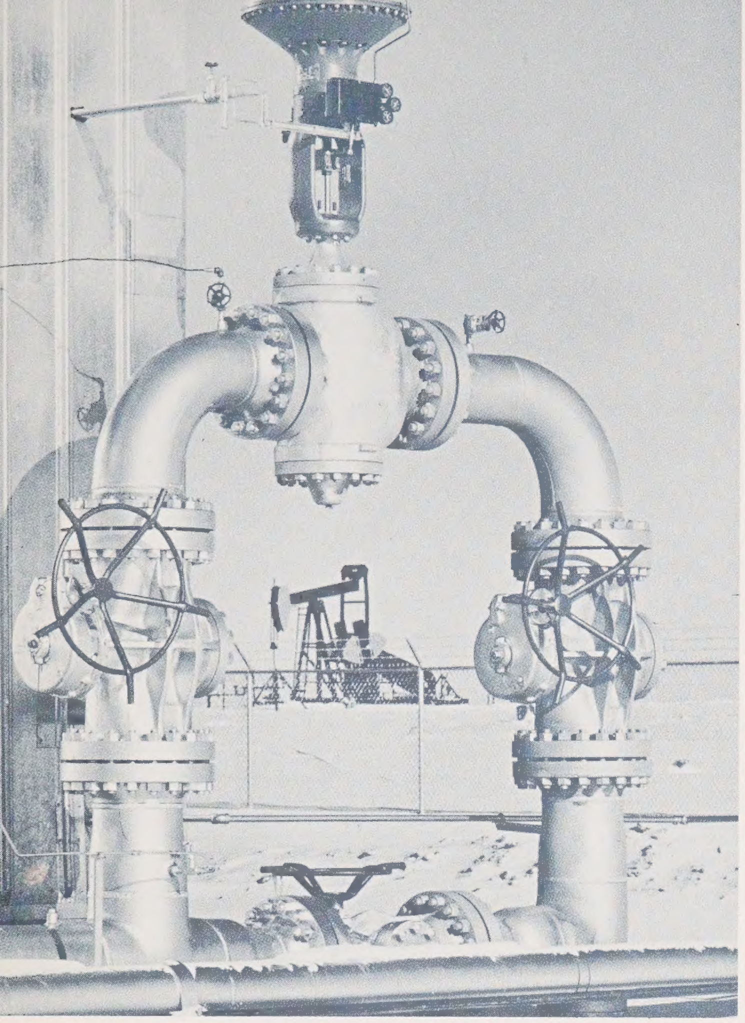
Head Office

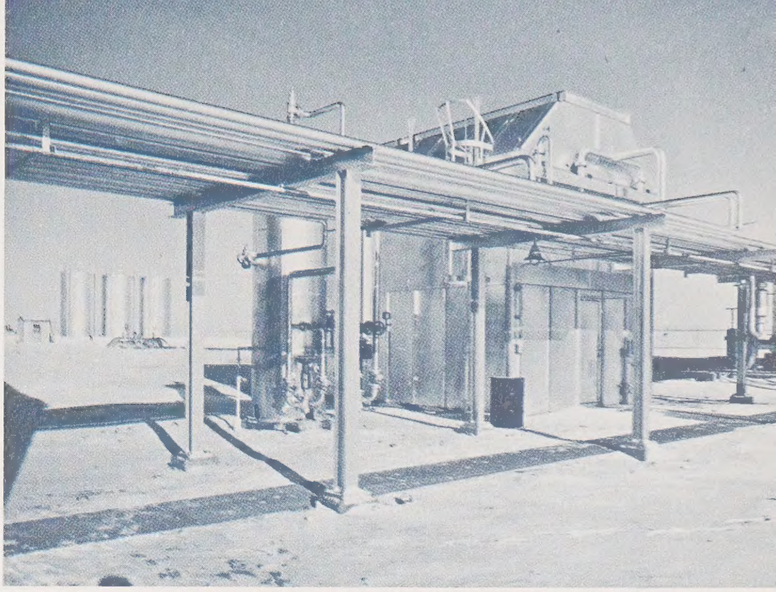
320 Seventh Avenue West, Calgary, Alberta, Canada

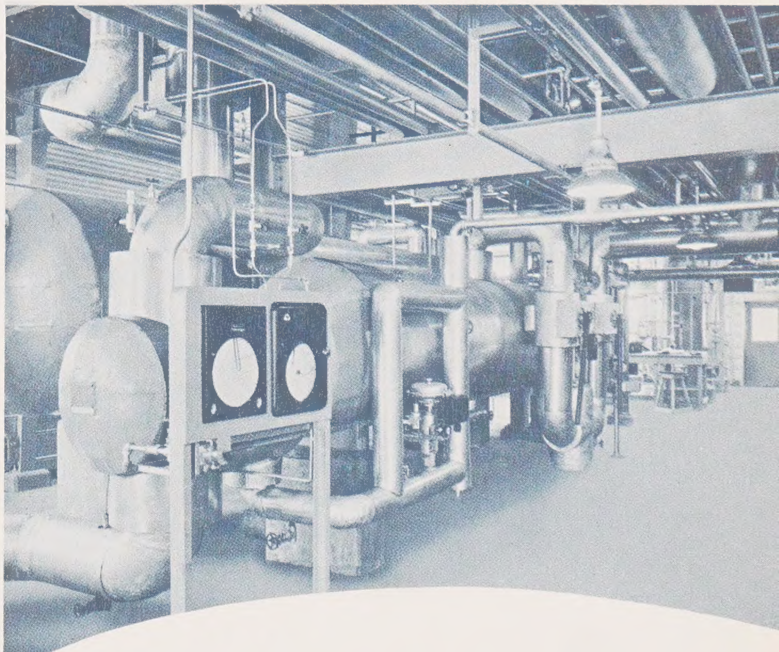
Transfer Agents and Registrars

Montreal Trust Company, Calgary, Toronto and Winnipeg

Guaranty Trust Company of New York, New York 15, New York







Views of New Natural Gas Processing Plant at Cessford, Alberta